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# THE PRICE *of* GOVERNMENT

GETTING THE RESULTS  
WE NEED IN AN

AGE OF PERMANENT  
FISCAL CRISIS



# DAVID OSBORNE

*and* PETER HUTCHINSON

[www.ReGov.org](http://www.ReGov.org)  
[www.PSG.us](http://www.PSG.us)

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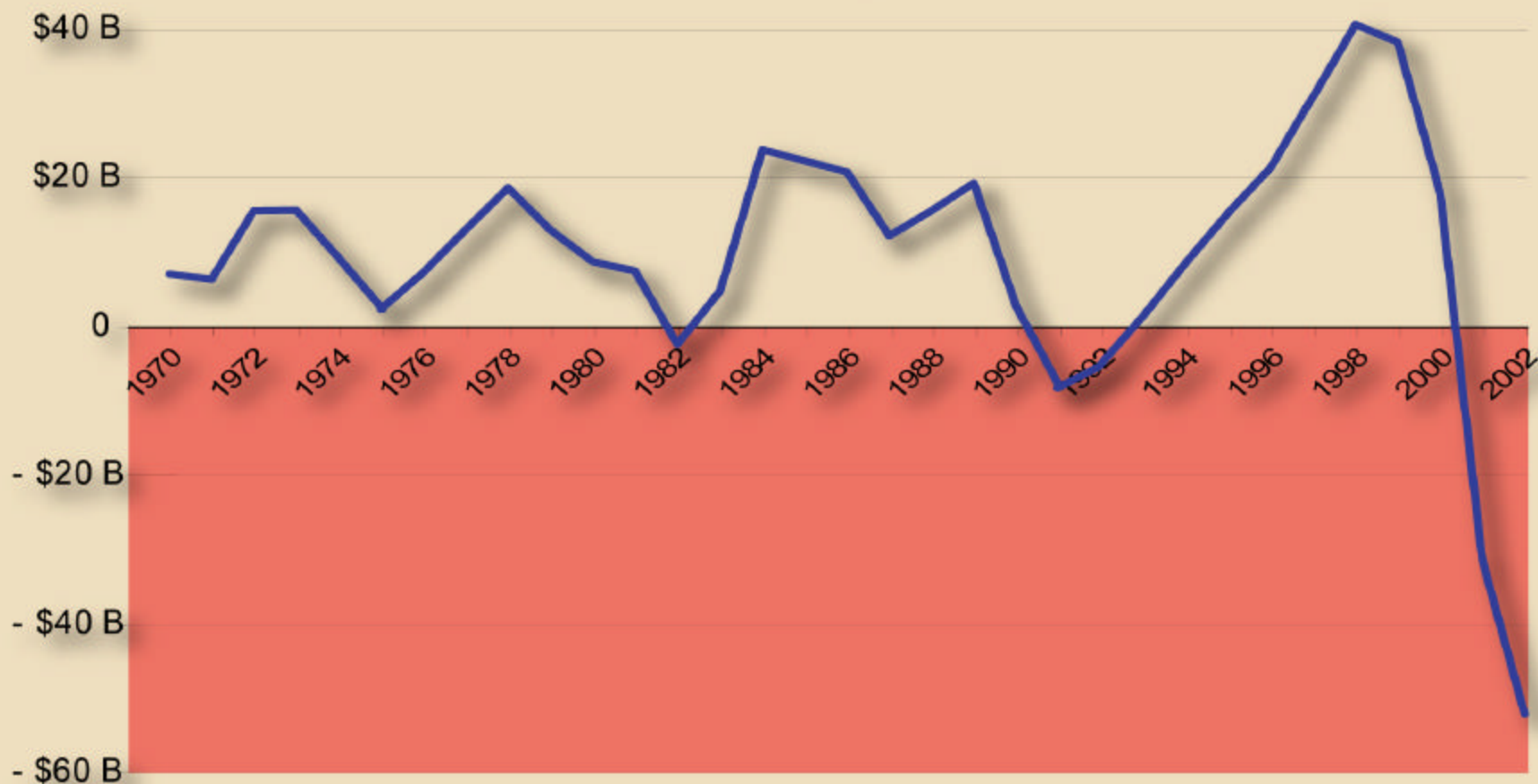
How many of you think this fiscal crisis was so bad because of the economy, and things will get back to normal when the economy fully recovers?



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# GOVERNMENT IS BROKE

## State and Local Surpluses and Deficits

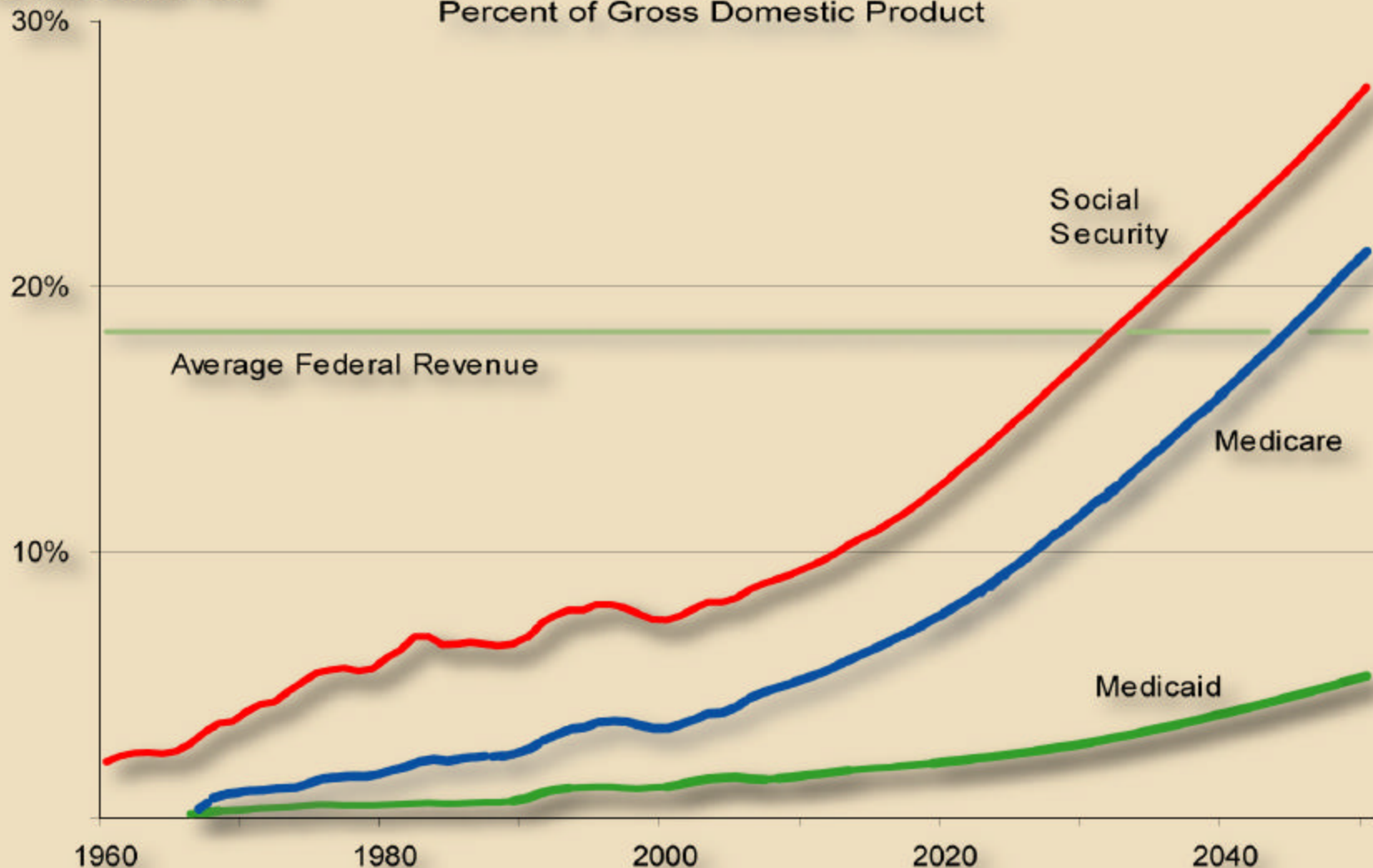




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# The Federal Fiscal Crisis

Percent of Gross Domestic Product



# The Fiscal Crisis is Permanent

A “perfect storm” – the convergence of:

❑ Inexorable cost drivers:

- 10% annual increase in health care costs.
- Pension (and Social Security) obligations as population ages.
- Rising debt and debt service.

# The Fiscal Crisis is Permanent (2)

## ☐ Obsolete revenue systems.

- No sales tax on most services
- No sales tax on most Internet transactions
- Corporate tax revenues declining as global market moves profits offshore



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Has the Price of Government (the percentage of personal income Americans spend on all taxes, fees, and charges) risen over the past 50 years?

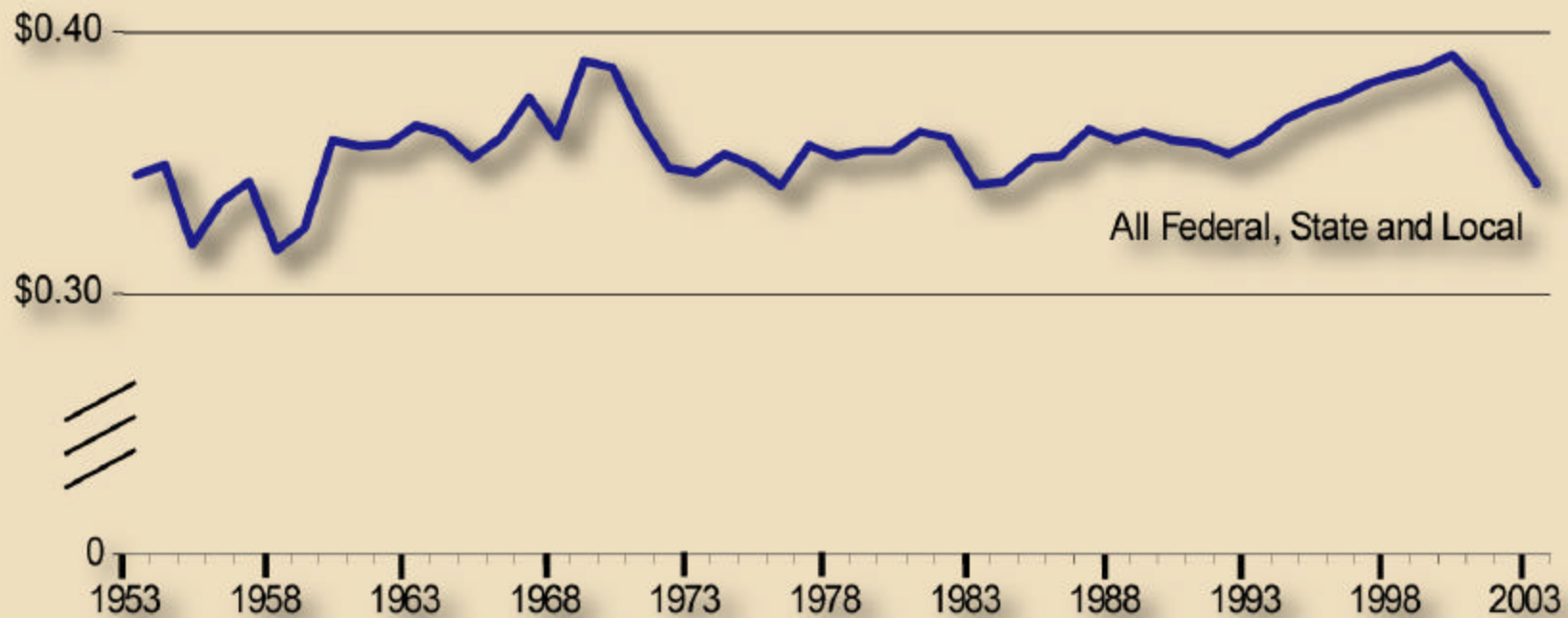




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# The Price of Government in the US 1953 to 2003

Cents per Dollar of Personal Income



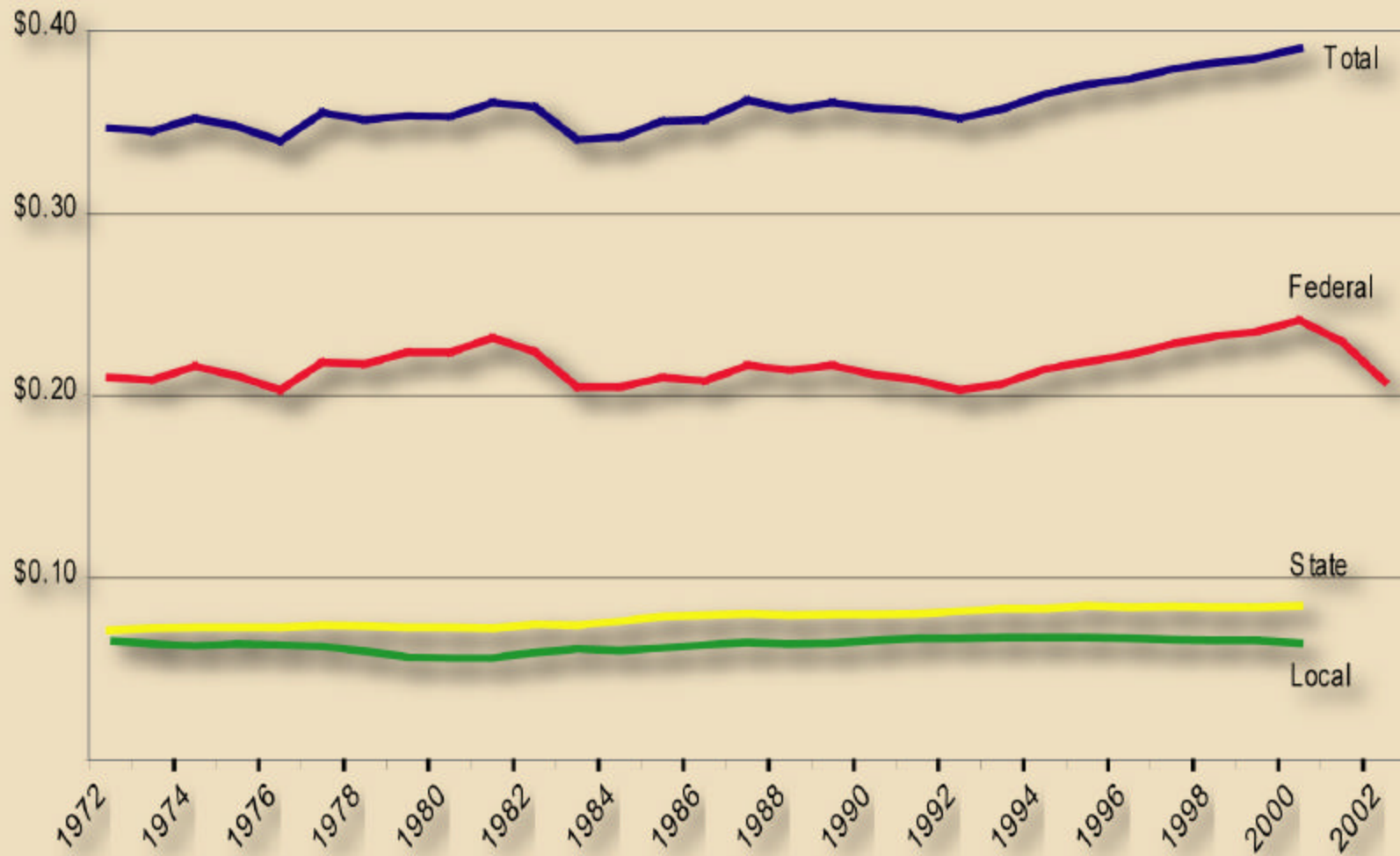




# Price of Government by Level

Cents per Dollar of Personal Income

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# US State and Local Price of Government

Cents per Dollar of Personal Income

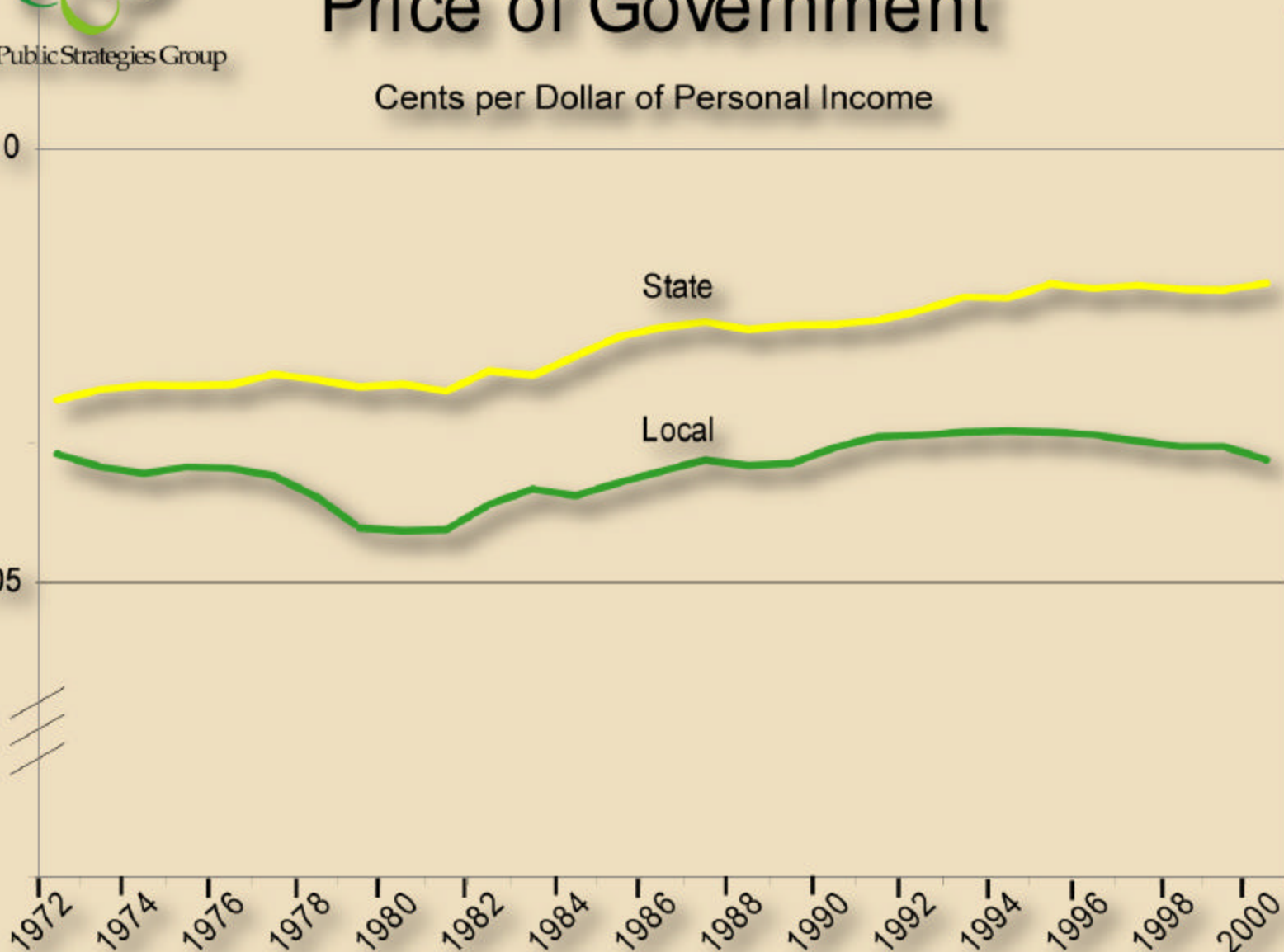
\$0.10

\$0.05

State

Local

1972 1974 1976 1978 1980 1982 1984 1986 1988 1990 1992 1994 1996 1998 2000

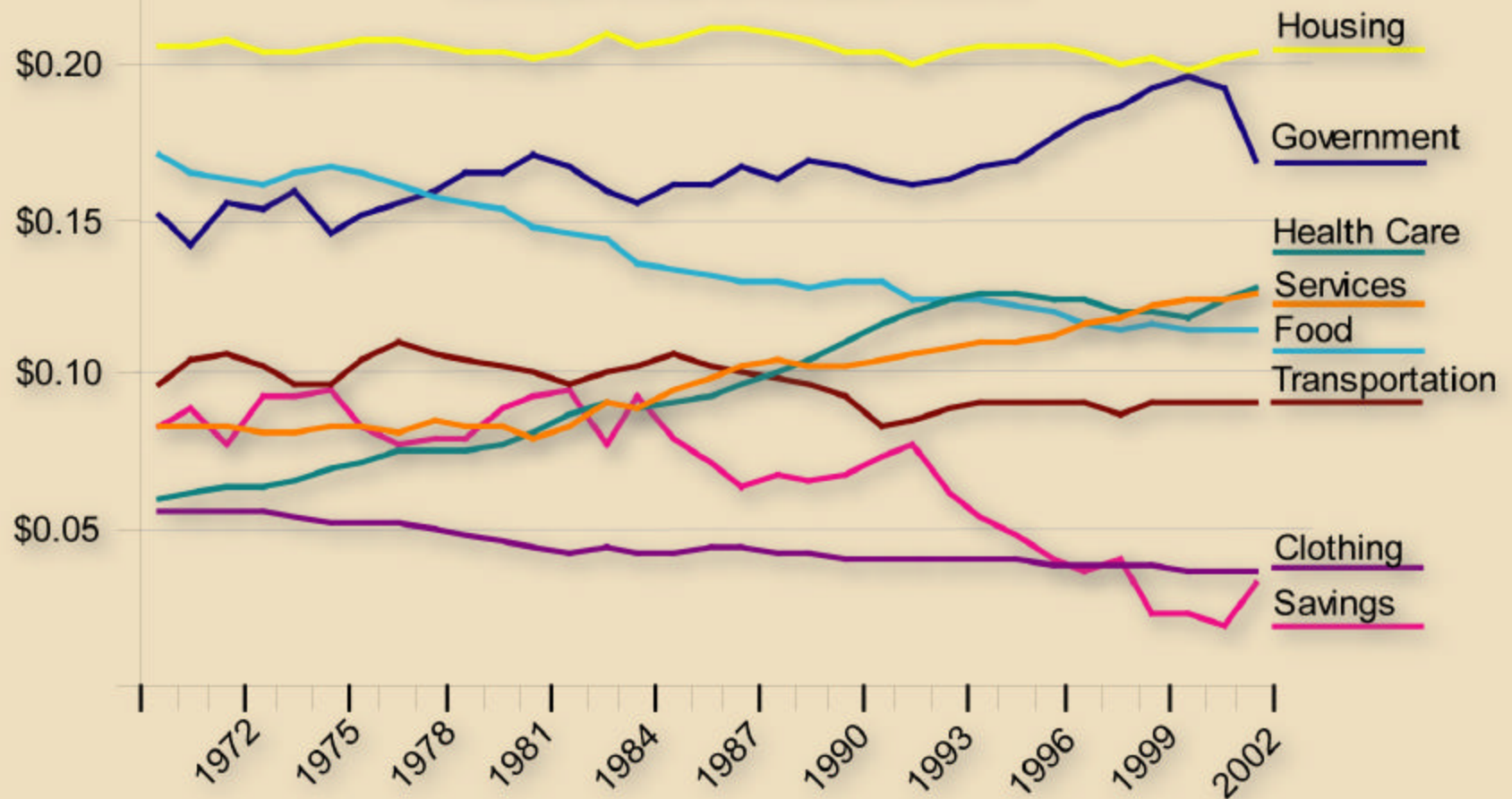




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# Government's Price Competition

Cents per Dollar of Personal Income





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# The Solutions:

- ☐ Smarter Budgeting
- ☐ Smarter Sizing
- ☐ Smarter Spending
- ☐ Smarter Management
- ☐ Smarter Leadership



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# The Current Game

## Cost- Based Budget

Starting Point	Last Year = BASE costs
Focus	Add/ Subtract costs re: BASE
Addition	Autopilot increases = new BASE  Plus “needs”
Subtraction	“Cut” from <u>new</u> BASE
Submission	Justification for needs/ costs -- plus a little extra



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## The Current Game (cont')

Incentives	Build up costs - make cuts hard
Analyst's job	Find hidden/ unnecessary costs
Elected's job	Choose to cut services, OR Raise taxes to cover costs <b>GET BLAMED!</b>
Focus of debate	What to cut What to tax
What drives decisions?	Avoiding pain before next election



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Remember Albert Einstein's definition of insanity????

“Doing the same thing over and over again and expecting a different result.”





# Washington State Changed the Game

Background:

- ☐ \$2.5 billion shortfall.
- ☐ Budgeting by referendum.
- ☐ Used up all the tricks.

And now for something  
completely different!!!!

# Gov. Locke Changed the Game by Asking 4 Questions

1. How much revenue will we have: What price of government will we charge our citizens?
2. What outcomes matter most to our citizens?
3. How much should we spend to achieve each outcome?
4. How can we BEST deliver each outcome that citizens expect?



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# WA Priorities of Government

Results	Indicators
Increase student achievement K-12.	
Improve the quality and productivity of the workforce.	
Deliver increased value from post secondary learning.	
Improve the health of Washingtonians.	
Improve the condition of vulnerable children and adults.	



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# WA Priorities of Government

Results	Indicators
Improve economic vitality.	
Improve the mobility of people, goods, information and energy.	
Improve public safety.	
Improve the quality of WA's natural resources.	
Improve cultural and recreational opportunities.	

# Pricing the Priorities

- ☐ How much are they each worth?  
Not how much do they cost?
- ☐ It's judgment, not science



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# WA: Pricing its Priorities

Results	
Increase student achievement K-12.	29%
Improve the quality and productivity of the workforce.	6.5%
Deliver increased value from post secondary learning.	9%
Improve the health of Washingtonians.	11%
Improve the condition of vulnerable children and adults.	10%



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# WA: Pricing its Priorities

Results	
Improve economic vitality.	5.5%
Improve the mobility of people, goods, information and energy.	12%
Improve public safety.	8.5%
Improve the quality of WA's natural resources.	5%
Improve cultural and recreational opportunities.	3.5%



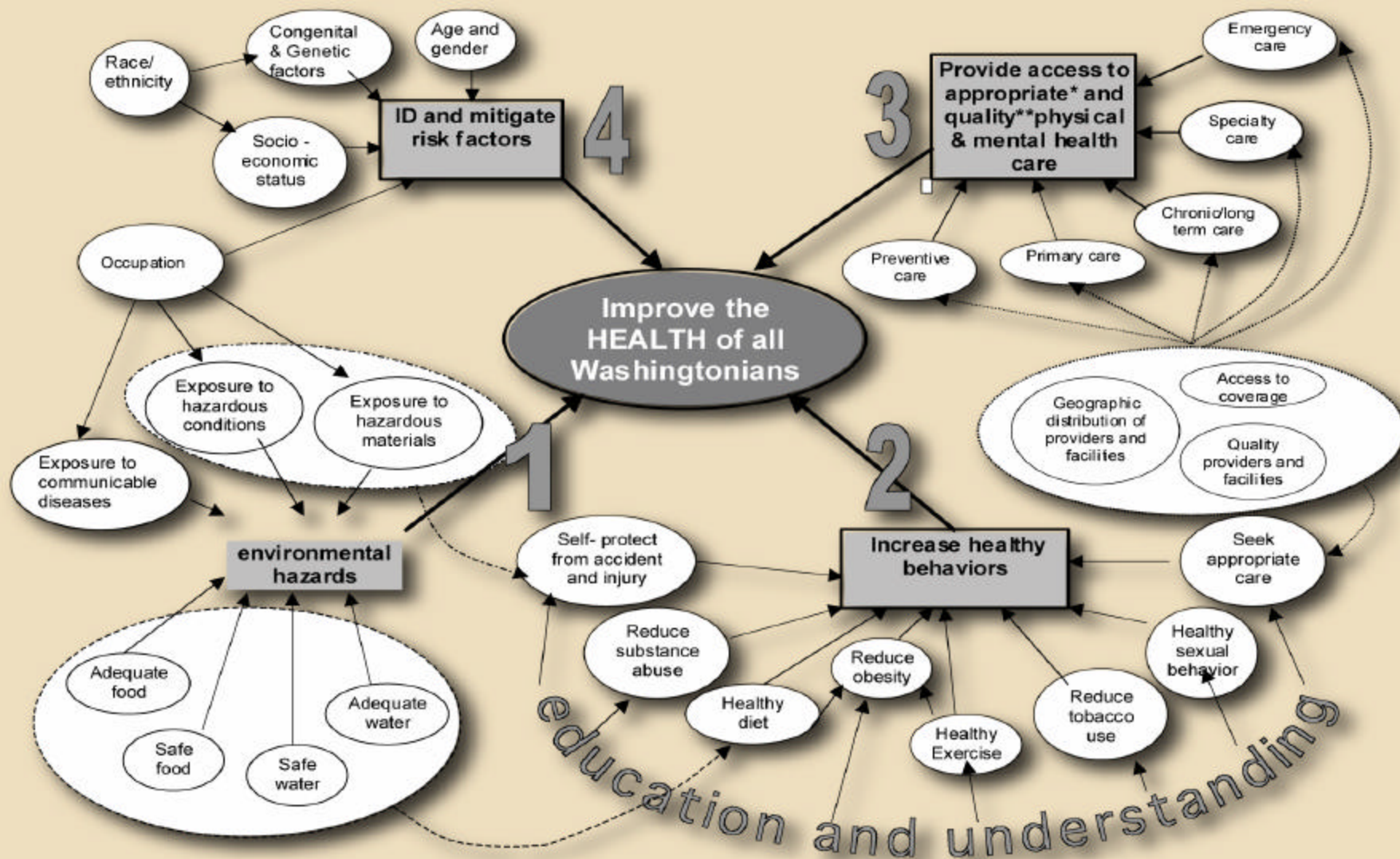
# **Results Teams: Create Purchasing Strategies**

- ☐ Results Teams are “Buying Agents” for citizens
- ☐ First task: Define 3 key indicators
- ☐ Second task: Develop strategy map, explaining what causes the outcome



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# Strategy Map: Improve Health





# **Purchasing Plans:**

## **Improve the Outcome at the Set Price**

- ☐ Define a basic purchasing strategy: What matters most?
- ☐ Ideally, Results Teams would issue “Requests for Results”
- ☐ Ideally, “sellers” would include state agencies, local governments, non-profits, and for-profits.



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# **Buyers Seek the Most Results for the Money**

- ☐ Rank order offers
- ☐ Start buying from the top
- ☐ Draw a line when they run out of money



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# WA. Budget:

## A Sample Page

### Health Care Spending Plan

**\$3.7 billion**  
GF-S and  
Health  
Services  
Account

**Savings:**  
**\$328 million**



#### Key Purchases

- *Medicaid health care for 908,600 vulnerable children and adults.*
- *All current children's health programs*
- *Statewide public health programs to protect all citizens*
- *Public health programs to ensure the health of babies and the safety of food*
- *Basic Health Plan insurance for 81,000 low-income people*
- *Expanded financial help to community health clinics*

#### Examples of what's not purchased

- *Basic Health Plan coverage for 59,800 adults*
- *Health coverage for the medically indigent*
- *Optional Medicaid coverage for workers with disabilities*
- *Optional adult dental, vision, and hearing services*





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# The Bottom Line

- ☐ Balanced budget
- ☐ Focus on the 'keeps,' not the cuts
- ☐ Buy results, not costs
- ☐ General interest trumps special interests
- ☐ Performance accountability
- ☐ Continuous reform/ improvement
- ☐ "Common Sense" communications

# What Will Budgeting for Outcomes Mean for IT?

- ❑ It will create a real market for IT innovations to reduce costs and improve results. E.g.:
  - Process reengineering
  - Online services & other e-gov initiatives
- ❑ It will move major IT projects, such as new communications systems for homeland security, from the back of the queue to the front.
- ❑ It will transform IT from a “cost center,” in people’s minds, to a “cost cutter.”





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How many of you think your state  
could successfully adopt Budgeting  
for Outcomes?



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## **IV. Smarter Sizing:**

- ☐ Strategic Reviews: Divesting to Invest
- ☐ Consolidation: Smart Mergers
- ☐ Rightsizing: The Right Work, the Right Way, with the Right Staff



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# Who Said It, and When?

*“We trained hard, but every time we were beginning to form up into teams, we would be reorganized. I was to learn later in life that we tend to meet any new situation by reorganizing ... and a wonderful method it can be for creating the illusion of progress while producing inefficiency and demoralization.”*

-- Petronius, A.D. 66

# Smart Mergers

The keys to productive consolidation:

- ☐ Consolidate “steering” (policy)
- ☐ Consolidate funding streams
- ☐ But keep most “rowing” (operations) decentralized and competitive

# Smart Mergers in I.T.

- ☐ Create a powerful, centralized I.T. Policy Office, to set standards and enforce compliance with them.
- ☐ Create a separate I.T. Services shop that sells its services to departments & agencies.
- ☐ Operate I.T. Services as a public enterprise, free of civil service and other constraints, but without a monopoly and dependent on sales to its customers.



# **III. Smarter Spending:** **Buying Value, Squeezing Costs**

- ☐ Buying Competitively
- ☐ Rewarding Performance, Not Good Intentions
- ☐ Putting Customers in the Driver's Seat
- ☐ Winning Compliance: Don't Buy Mistrust - Eliminate It



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# Rewarding Performance, Not Good Intentions

❑ New York's Compstat, Baltimore's Citistat, San Francisco's SFStat, etc.:

- Direct, immediate, personal feedback on performance.
- Highly dependent on Information Technology.
- Linked to 311 and Customer Quality Assurance systems -- which are also dependent on IT.



# Putting the Customer in the Driver's Seat

- ☐ “I want choice.”
- ☐ “I want control.”
- ☐ “Don’t waste my time.”
- ☐ “And personalize the experience for a market of one--me.”



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# IT's Role in Empowering Customers

❑ 311 Call Centers and Response Systems

❑ E-Gov Services:

- Online job searches
- State college admissions
- Court records
- Information on sex offenders
- Tax filing
- Renewing driver's licenses & registrations (76% savings in Arizona)
- Business registration
- Jury selection

## **IV. Smarter Management:**

*Reforming Government on the Inside to  
Improve Performance on the Outside*

- ☐ Using Flexibility to get Accountability
- ☐ Making Administrative Systems Allies,  
Not Enemies
- ☐ Smarter Work Processes



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# **“Charter Agencies”**

- ☐ Governor negotiates “Flexible Performance Agreements” with charter agency directors.
- ☐ Agency agrees to produce specific results over 2-3 year time frame.
- ☐ Agreement includes specific rewards and sanctions for performance.
- ☐ Agreement specifies new flexibilities granted to charter agency.



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# **Administrative Systems:**

How many of you believe your personnel (civil service) systems, procurement systems, budget and finance systems, and auditing systems are designed to help agencies improve their performance?



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# There's More ...

QuickTime™ and a  
TIFF (Uncompressed) decompressor  
are needed to see this picture.